




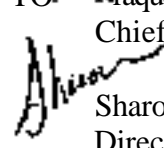
OFFICE OF THE COUNTY AUDITOR

MEMORANDUM


Ronald S. Weinstein, CPA
County Auditor

August 24, 2006


MEMO TO: Raquel Sanudo
Chief Administrative Officer


Sharon F. Greisz
Director, Department of Finance

THRU: Ronald S. Weinstein
County Auditor 

FROM: Dilawar Lakhani
Assistant County Auditor 

SUBJECT: Annual Physical Inventory of Auto Parts and Fuel - Central Fleet Division
Fiscal Year Ending June 30, 2006

We have completed a review of the annual inventory valuation process at the Office of Central Services, Central Fleet Division for the fiscal year ending June 30, 2006. The scope of our review related specifically to an annual physical inventory count of auto parts and the measurement of fuel as of June 30, 2006. As presented in the attached report, the total inventory value of the auto parts amounted to \$627,612. and the total inventory value of the fuel amounted to \$254,760.

As part of our review, we tested the auto parts inventories at each of the six locations with an auto parts inventory, and we observed fuel measurements at the thirteen sites. The values of physical counts and measurements at all these locations were within acceptable variances from the book balances.

We would like to thank the employees who participated in the inventory process for the assistance they provided to us during this review.

Attachment

cc: Council Members
James N. Robey, County Executive
Marc DesMangles, Chief, Office of Central Services
Lois Miller, Administrative Services Officer

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**Central Fleet Division
Annual Physical Inventory
For the Year Ended June 30, 2006**

According to Central Fleet Policies and Procedures Manual, Sections 12.2.5 and 12.2.6, each shop in the Central Fleet Division is responsible for performing regular physical inventory counts and data entry at the end of June. Physical inventory counts were taken and verified by the stores employees for the fiscal year ending June 30, 2006. We have listed the valuation of parts on various count dates during the month of June for the current and previous year for comparison.

<u>Shop</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>Change Amount</u>	<u>Percent %</u>
Alpha Ridge	\$15,910	\$14,651	\$1,259	8.6
Cooksville	\$81,463	\$100,079	(\$18,616)	(18.6)
Dayton	\$244,977	\$284,821	(\$39,844)	(14.0)
Guilford	\$96,642	\$110,245	(\$13,603)	(12.3)
May fie Id	\$156,585	\$144,808	\$11,777	8.1
Ufilities	<u>\$32,035</u>	<u>\$25,653</u>	<u>\$6,382</u>	<u>25.0</u>
Total	\$627,612	\$680,257	\$(52,645)	(7.7)

After taking the count at each shop, the counts were entered in the computer to determine the year end values. A summary report was compiled on July 12, 2006 by the Office of Central Services based on the above valuation reports and the physical inventory dollar value is submitted to the Financial Management in the Department of Finance for the year ended June 30, 2006. We noted that an amount of \$543 was inadvertently excluded from the summation formula while taking the Alpha Ridge shop total amount. The amount of \$15,367 was reported to the Financial Management for a total inventory of \$627,069 adjustment entry for \$543 should be made to correct the inventory value. We therefore recommend that:

- 1. the Financial Management Section in the Department of Finance make an adjusting entry for \$543 to correct the Alpha Ridge Shop's value to \$15,910 and the total inventory to \$627,612.**

The supervisor at each shop reviewed the variances between the perpetual inventory and the physical inventory counts taken on the inventory count sheets. The counts were compared with the units on hand shown in the perpetual records. The variances were reviewed, recounted, investigated and resolved by the supervisor. After each supervisor was satisfied with their investigation of the accuracy of the parts counted and the recorded units on the perpetual records, the stores technician listed these variances on an annual inventory adjustment form which is used to document an explanation for the difference.

We have summarized below the number of variances found in the records from each shop at the time of the parts counting process.

<u>Shop</u>	<u>FY'06.</u>	<u>FY'05</u>	<u>Change</u>	<u>FY '06</u>	<u>FY '05</u>	<u>Change in</u>	<u>FY'06</u>	<u>FY'05</u>
	<u>Listed Parts</u>		<u>in Parts</u>	<u>Variances</u>		<u>Variances</u>	<u>% Variances</u>	
Alpha Ridge	130	131	(1)	15	10	5	11.5	7.6
Cooksville	1,018	1,366	(348)	10	17	(7)	1.0	1.2
Dayton	1,772	2,286	(514)	177	253	(76)	10.0	11.1
Guilford	2,198	2,625	(427)	39	84	(45)	1.8	3.2
Mayfield	1,327	1,320	7	33	38	(5)	2.5	2.9
Utilities	<u>226</u>	<u>226</u>	<u>-0-</u>	<u>8</u>	<u>13</u>	<u>(5)</u>	<u>3.5</u>	<u>5.8</u>
Total	6,671	7,954	(1,283)	282	415	(133)	4.2%	5.2%

After the investigations and adjustments were completed, the inventory valuation reports were run based on the counted units. The variances were set to zero and the inventory dollar value records were produced as of the date of the count. We were informed that no adjustments were necessary at the shops from the date of the count to the end of the fiscal year to value the inventory as of June 30.

The shop supervisors investigated the variances and prepared adjustment forms that corrected the perpetual inventory data in the Fleet Maintenance computer program. We reviewed the recorded changes on the adjustment forms and found that the forms were prepared after the counts were taken by the stores technicians and the variances were investigated and approved by the shop supervisors. We have provided a detailed analysis on each shop in the attached pages.

To calculate and determine the total inventory value amount before and after the counts were taken at each shop, the shop inventory valuation reports were added so that we could compare the two reports and determine the size of the dollar difference. We found that the two valuation reports were run for each shop and noted a difference of \$1,524 or 0.24 percent of the \$629,139 total count value.

We have listed below the recorded (before count) and counted valuation amounts on each shop.

<u>Shop</u>	<u>Value Before Count Date</u>	<u>Value on Count Date</u>	<u>Difference Amount</u>	<u>Percent %</u>
Alpha Ridge	\$16,525	\$15,910	(\$615)	3.70
Cooksville	\$81,592	\$81,463	(\$129)	.16
Dayton	\$246,464	\$244,977	(\$1,487)	.60
Guilford	\$97,234	\$96,642	(\$592)	.60
Mayfield	\$155,182	\$156,585	\$1,403	.90
Ufilities	<u>\$32,139</u>	<u>\$32,035</u>	<u>(\$104)</u>	<u>.32</u>
Total	\$629,136	\$627,612	(\$1,524)	.24

Alpha Ridge Shoo

We visited the shop on June 30, 2006. The inventory value of the auto parts counted amounted to \$15,910 on the date of the count. The recorded value prior to the count amounted to \$16,525. We took a random sample of 42 items out of 130 parts (32%). The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was prepared. We reviewed the records and found a \$615 difference, 3.7% of the total cost. We were informed that the records were incorrect due to a lack of staff and reorganization efforts.

Cooksville

We visited the shop on June 27, 2006. The counts were taken by the staff members. The total dollar value of the inventory value amounted to \$81,463 on the date of the count. The inventory records amounted to \$81,592 prior to the physical count. We selected 110 items out of the total 1,018 auto parts (10.8%) at random for our sample size. The perpetual inventory records were

reconciled with the end of the year physical inventory counts and an adjustment form was prepared. Most of the discrepancies were due to missing or incorrect data entry.

Dayton

We visited the Dayton shop on June 24, 2006. The counting process was ongoing during our visit. The inventory value amounted to \$244,977 as of the date of the count. The inventory valuation per the records prior to the date of the count amounted to \$246,464. For our sample we selected 155 parts (8.7%) out of 1,772 total parts. We reviewed and compared our counts with the counts taken by them and found that they agreed, except for one item (part #42919-Air Filter). The perpetual inventory records were reconciled with the physical counts. The adjustment amount totaled \$1,487 for the 177 items as prepared by the stores technician. The adjustment form indicated that most of the discrepancies were due to missing or incorrect data entry.

Guilford Shop

We visited the shop on June 24, 2006 to observe the inventory counting process. The total value of the count amounted to \$96,642. The inventory valuation before the count was reported in the amount of \$ 97,234, a difference of \$592 (.61%). We took a random sample of 62 parts (3%) of the 2,198 items listed. Based on that sample, we did not find any discrepancy in their counts. We reviewed the perpetual inventory records that were reconciled as of the date of the count. An adjustment in the amount of \$129 was made to reconcile the difference between the inventory recorded and the counted valuation amounts. The adjustment forms were prepared to correct, report and explain the perpetual inventory differences found while the counts were taken. We reviewed some of the variances listed on the adjustment forms and did not find any part with significant dollar discrepancies. The adjustment forms indicated that most of the discrepancies were due to missing or incorrect data entry. The remaining difference of \$464 was due to a pricing error for part no, 039628 (Bolt) entered as \$78 instead of .78 cents.

Mayfield Shop

We visited the shop on June 30, 2006. The total dollar value of the inventory of the parts counted on June 30, 2006 amounted to \$156,585. We took a random sample of 131 parts (about 10%) out of 1,327 items listed. The perpetual inventory records amounted to \$155,182 and were

reconciled with the end of the physical inventory counting process by preparing the annual adjustment form. We reviewed the variances listed on the adjustment form and did find major differences in 5W20 oil and transmission fluid. The oil was not entered into the record when delivery was made and the transmission fluid DEX V was charged instead of DEX 111.

Utilities Shop

We visited the shop on June 29, 2006 to observe the inventory counting process. The recorded value prior to the count was \$32,139 and after the count amounted to \$32,035. We took a random sample of 66 out of 226 (29%) parts listed and did not find any discrepancy in the counts. The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was completed. We reviewed the form and found that the adjustment totaled \$104. Most of the discrepancies were to missing or incorrect data entry.

Fuel Inventory

We met with the Central Fleet administration staff to schedule our fuel inventory (unleaded gasoline and diesel) measurement observation visits. The administration office technician manually measures fuel stored in the tanks monthly, on a fixed schedule. The perpetual inventory record is kept on the computerized Veeder Root device at various shops. The amount of fuel in the tanks is measured by this device on site and printed on the tape. There are no Veeder Root devices at the Banneker Fire Station and the Howard Building sites. The Dorsey buildings Waste Water Plant sites were closed down.

We visited thirteen (13) sites on June 30, 2006 to observe the fuel inventory process. The fuel measurement was taken by the technician of the Central Fleet at all the sites (except Guilford Shop). He also provided a Veeder Root tape of the fuel reading except at the Banneker Fire Station No.7 and the Howard Building. We did not observe any significant discrepancies.

The Office of the Central Services prepared a memorandum report for the fuel inventory dated July 17, 2006 for the Department of Finance (Financial Management Division) for the fiscal year 2006. As per the memo gasoline inventory value was \$154,063 and the diesel inventory value was \$100,697, resulting in a total fuel value of \$254,760.